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Trends in Farm Land Values

The value of farm real estate, estimated by Statistics Canada at \$95.4 billion, represented 77 per cent of the total farm capital in 1984, down from \$103.3 billion or 79 per cent of total farm capital in 1981. Compared with this, FCC's Farm Survey in 1984 estimated the value of owned farm land at \$68.5 billion, down from \$72.9 billion in 1981. This represented 62 per cent of the total farm capital compared with 59 per cent in 1981. Differences between the two estimates, however, are not irreconcilable. The former estimate included value of farm buildings, farm land either owned or rented, as well as other real estate owned by farmers, while the latter estimate was based exclusively on the value of owned farm land; hence the difference.

The value of farm real estate in Canada peaked in 1982 and has declined ever since. Between 1974 to 1982, the value of farm real estate increased at an estimated annual compound rate of 13.8 per cent while the annual inflation rate averaged 9.8 per cent, increasing land value in real terms at about 4 per cent annually. Between 1982 to 1984, however, the situation was reversed. During this period, the annual compound decrease in land value was 4.2 per cent while the inflation rate averaged 7.0 per cent annually.

The rate of change in farm real estate values varied considerably between and within provinces. Over the last eight years before land values began to decline, from 1974 to 1982, Saskatchewan experienced the fastest increase averaging at 17.37 per cent per year, while Nova Scotia and PEI registered the smallest increases estimated at 5.28 and 4.99 per cent respectively.

During the 1970's the purchase of land was considered a good investment even with 100 per cent financing. During this period the average cost of long-term capital was below 10 per cent

while annual appreciation in land value averaged about 15 per cent, more than adequately covering the associated interest cost. Throughout the 1970's, capital gains in farm land, after adjusting for inflation, exceeded aggregate net farm income. The resulting increase in farm equity served as collateral for borrowings either to finance expansion or to make adjustments for variations in farm income. However, declines in real farm income in the 1980's combined with declining asset values have gradually eroded farm equity. The FCC survey shows farmers' equity decreased from 85 to 82 per cent between 1981 to 1984. Within this three-year period, their net worth declined from \$99.8 billion to \$95.6 billion, a \$4.2 billion decline. This decline is larger than the realized net farm income of any of the last three years.

During the inflationary 1970's, many producers financed land, modern buildings and new equipment through borrowings against inflated land values. Depressed commodity prices and soaring interest cost in the 1980's found many of them experiencing varying degrees of cash shortages. In order to meet payments on their acquisitions as well as meet high fixed overhead cost they were forced to offer some or all of their land for sale. But consecutive declines in real income and thereby purchasing power of the farm sector continued to reduce the number of farmers competing in the market for land. Moreover, the high cost of long-term credit coupled with inflated land values restricted the number of new entrants. The resulting imbalance between supply and demand for land continued to reduce the value of farm real estate in 1984.

However, this does not appear to apply equally to all areas of Canada as local conditions vary significantly. In areas where there are large numbers of established farmers, where crop yields

Table 1 - Index of Values Per Acre of Farm Lands and Buildings¹

	1974	1979	1980	1981	1982	1983	1984	Annual Compound Rate of Increase		
								74-72	80-84	74-84
B.C.	170.8	308.4	378.4	416.4	387.2	398.8	386.8	10.77	-0.05	8.52
Alta.	146.2	305.4	373.1	436.6	440.9	414.0	384.9	14.80	-6.57	10.16
Sask.	144.9	323.2	443.5	487.0	521.7	505.8	485.5	17.37	-3.53	12.85
Man.	145.8	262.7	304.8	360.2	324.1	314.5	295.2	10.50	-4.58	7.31
Ont.	164.6	344.3	401.2	441.2	432.5	402.3	394.2	12.84	-4.53	9.13
Que.	143.3	290.1	330.5	346.8	357.4	364.5	353.9	12.10	-0.49	9.46
N.B.	153.1	235.7	257.1	298.0	282.7	282.7	279.6	7.97	-0.55	6.21
N.S.	153.3	190.5	243.8	243.8	231.4	231.4	221.9	5.28	-2.07	3.77
P.E.I.	168.0	245.0	250.0	275.0	248.0	248.0	236.0	4.99	-2.45	3.46
Canada²	153.0	320.9	385.2	427.8	430.4	412.2	394.8	13.80	-4.22	9.94

¹1971 = 100.²Excludes Newfoundland.

and commodity prices have been average or above average or where provincial credit and subsidy programs have been introduced, farm land values appear to have remained steady or even increased.

1984 Farm Land Values

Cultivated bare land in Canada decreased in value by about 4.0 per cent in 1984 compared to 1983, according to data collected by FCC. Based on Statistics Canada data however, the estimated decrease was 4.2 per cent (Table 1) during this period. There are several reasons for this difference.

FCC data are a weighted average of actual sales of bare farm land reflecting differences in the size of farms and the number of sales in an area. Thus, if there are a number of transactions in a particular area where farms are large and there are relatively fewer transactions in other areas, the data would be weighted to favour the land values on large blocks of land. Aggregate data also does not reflect other factors such as soil classification, type of farm enterprise and urban influences. As well, because Statistics Canada data reflect farm real estate values while FCC data are based on bare land values, the value of farm buildings is included in Statistics Canada data which, especially in BC and eastern Canada, could account for much of the difference.

Based on data collected by FCC, land values, except in Quebec, decreased from 1983 to 1984. However, there were wide differences in the rate

of change between and within provinces. The largest decrease in land value was observed in BC where sales price per hectare dropped from \$4,277 in 1983 to \$3,255 in 1984; a drop of over 24 per cent. However, the magnitude of this drop may partly be attributed to FCC's weighting system. The number of transactions tripled compared to the year before and forced sales most likely drove the prices down. Ignoring this extreme, land values in Alberta dropped by 10.83 per cent; Saskatchewan 4.04 per cent; Manitoba 10.9 per cent; and Ontario 3.19 per cent; while there was an increase of 2.47 per cent in Quebec.

In 1984, the number of land sales in Quebec were lower compared with 1983. Land value observers in Quebec are unanimous that there was a decrease in prices. However, the FCC data appeared to indicate some improvement in certain categories. This may be due to differences in sample size as well as their respective distributions between the two years.

Average values of cultivated bare land excluding buildings for 1983 and 1984 across the country are indicated on the map (Figure 1). However, it is important to note that in some regions, only a small number of land sales were recorded or the demand for a particular type of farm enterprise changed between 1983 and 1984 which could influence variations in land values. Although on an overall basis, land values in Canada declined between 1983 and 1984, within individual provinces there are pockets of land which increased in value during this period. In BC, on a provincial basis, a significant decrease

in land value was observed. However, within the province itself, there is a marked increase in one of the four areas indicated on the map.

Cultivated farm land values (excluding farm buildings), stratified by the Canada Land Inventory (CLI) Classification and sales by size of farms, are compared between 1983 and 1984 (Table 2). Across the country, land values, in most classes, declined in 1984 compared to 1983. When classified by farm size, except for occasional deviation, value per cultivated hectare declined almost everywhere. Observed increases in per hectare value, when they occurred, were concentrated towards smaller farm sizes, a trend observed in previous years as well.

Some variation in land value occurred for land used for different types of farm enterprises within a province and also for certain farm enterprises in different provinces (Table 3). In BC,

for example, land used for production of fluid-milk and special crops was sold at a higher price in 1984 compared to 1983, while land used for all other enterprises was sold at substantially less. In Quebec, except for cash crop land, price per hectare of land sold in 1984 exceeded 1983 prices for all enterprises. Land used for production of fluid-milk, except in Alberta, commanded a higher price in 1984 compared with 1983.

Cross Canada Report 1985

Land values in 1985, with few exceptions, were below the 1984 level, according to reports received till July, 1985. The land market, compared to the year before, was much less active. Transactions were relatively fewer, with several forced sales. Weaker demand for land suggests that there may be further downward pressure on farmland values.

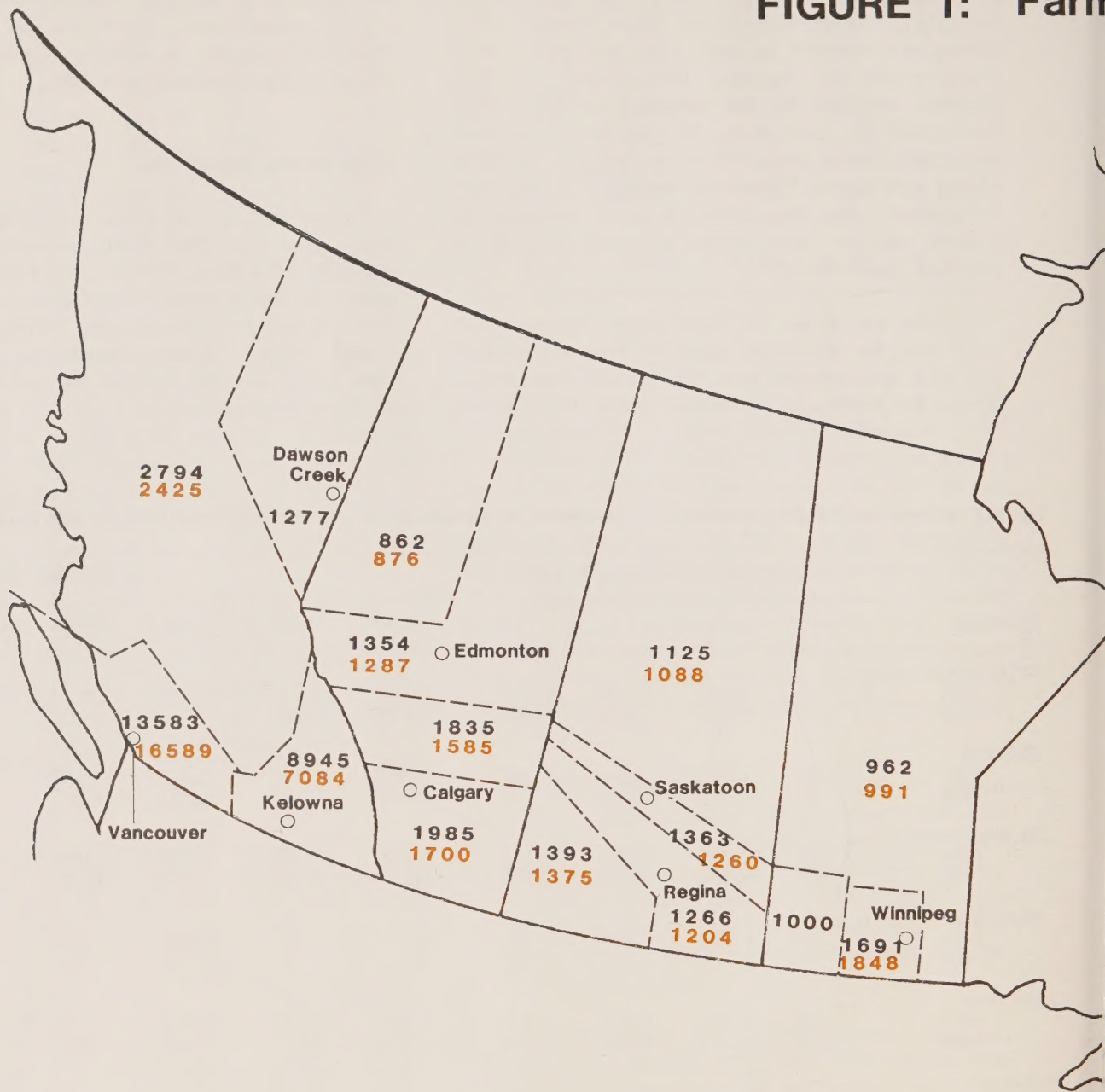
Table 2 - Farm Land Value per Hectare Tabulated by Canada Land Inventory Classification and Farm Size*

Province	Canada Land Inventory Class				Farm Size - Hectares					
	1	2	3	4	0-24	24-49	50-74	75-99	100-149	150+
British Columbia										
1983	-	6,610	8,439	3,297	12,675	3,273	1,704	-	2,604	-
1984	-	4,149	3,415	3,086	12,452	2,067	-	-	-	-
Alberta										
1983	2,586	1,753	1,569	1,169	1,720	1,453	1,803	1,444	1,498	1,586
1984	2,257	1,600	1,310	1,234	1,909	1,425	1,583	1,305	1,384	1,327
Saskatchewan										
1983	1,779	1,548	1,217	1,148	1,467	1,280	1,414	1,191	1,346	1,185
1984	1,832	1,424	1,228	1,023	1,537	1,094	1,355	1,138	1,234	1,236
Manitoba										
1983	-	1,198	1,011	774	-	1,077	1,065	1,093	1,161	1,199
1984	-	-	1,284	-	-	-	1,320	-	-	-
Ontario										
1983	4,108	2,707	1,803	1,236	3,925	2,860	2,718	2,604	3,008	2,790
1984	4,453	2,576	1,784	1,114	4,085	2,891	2,387	2,621	1,810	-
**Quebec										
1983	2,870	1,851	1,310	1,076	1,550	1,375	1,183	-	-	-
1984	2,437	2,001	1,417	1,220	1,634	1,513	1,046	-	-	-
New Brunswick										
1983	-	-	-	1,533	1,751	-	-	-	-	-
1984	-	-	-	-	-	-	-	-	-	-
Prince Edward Island										
1983	-	-	-	-	-	-	-	-	-	-
1984	-	-	-	-	-	-	-	-	-	-

*Value of cultivated bare land. Categories with less than five sales are not reported.

**Incompatible sample sizes and their distribution may have distorted the results.

FIGURE 1: Farm



1983 - \$/hectare

1984 - \$/hectare

Source: FCC Data

* Bare land values per cultivated hectare

and Values per Hectare in Canada, 1983 and 1984*

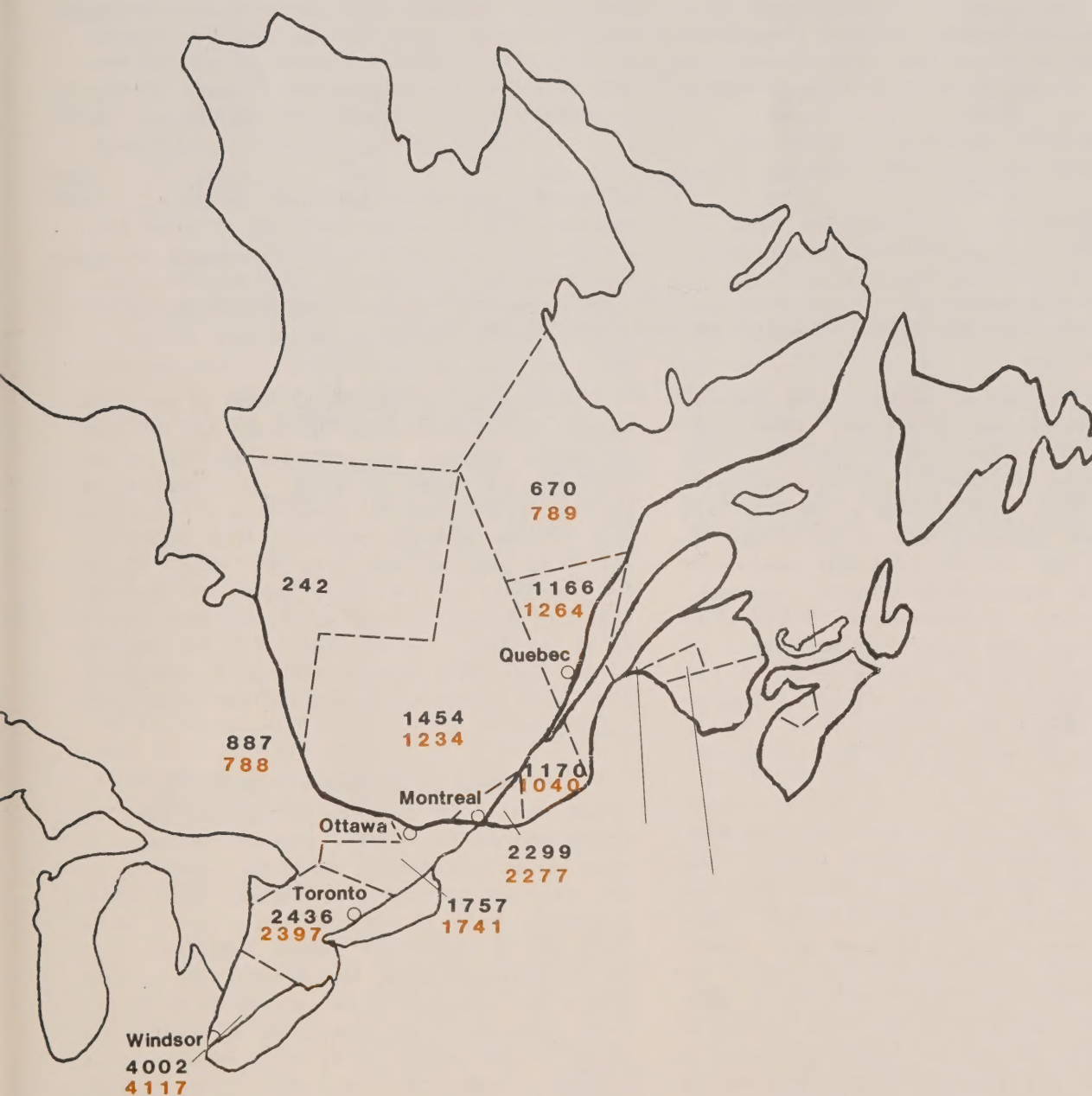


Table 3 - Value of Cultivated Bare Land by Type of Farm Enterprise

Province	Cash Crop	Fluid Milk	Industrial Milk	Beef	Hogs	Others
- dollars per hectare -						
British Columbia						
1983	5,318	6,416	-	2,471	11,602	4,326
1984	3,954	7,908	-	1,795	-	4,486
Alberta						
1983	1,534	2,341	1,800	1,335	1,934	2,092
1984	1,471	1,551	1,487	1,143	1,822	1,321
Saskatchewan						
1983	1,323	1,329	-	968	1,479	1,171
1984	1,265	1,666	-	964	-	1,028
Manitoba						
1983	1,080	1,088	-	-	1,635	1,095
1984	1,274	-	-	-	-	-
Ontario						
1983	3,517	2,267	1,971	2,072	3,011	2,372
1984	3,300	2,484	1,537	2,045	2,709	2,547
**Quebec						
1983	2,346	1,355	983	793	1,336	1,232
1984	2,070	1,385	1,021	1,109	1,417	1,294
Atlantic						
1983	2,870	-	-	-	500	1,107
1984	-	-	-	-	-	-

**Incompatible sample sizes and their distribution may have distorted the results.

Although realized net income in 1984 compared with 1983 increased over 16 per cent, farmers appear to have taken a conservative approach towards increased capital investment, especially expansion of their holdings. The effects of the U.S. Farm Bill, depressed commodity prices, the drought in the west, and high interest rates have combined to dampen farmers' expectations. Capital purchases, the bulk of which are comprised of investment in farm real estate, were expected to decrease by 20 per cent between 1983 and 1984, according to FCC survey. The demand for credit for either purpose is low. The demand for FCC funds is at a record low for the second year in a row confirming this trend in 1985.

Many farm land sales in BC in 1985, to date, have been reported to be forced sales. Land prices remained depressed and may even drop further by 5 to 10 per cent during the year. However, the housing market in BC seems to be improving gradually and it is expected that some of the optimism may spill over into land sales as well. The number of land sales in the first quarter of 1985, compared to the corresponding period in 1984, was up. Real estate experts in BC share the opinion that land values in the province, if not bottomed out already, were very close to it.

Land values in Alberta, at least in the first quarter of 1985, increased by about one per cent per month. However, the estimated decrease in net realized farm income of 26 per cent compared to the year before; and the drought in the southern part of the province, reversed this situation. Now it is expected that farm land values during the remainder of the year, depending upon the impact of drought on crop yield, may drop from 5 to 10 per cent. In anticipation of the drop in value, land sales dropped noticeably, making it even more difficult to pinpoint the trend with confidence.

Land values in Saskatchewan dropped by 10 to 15 per cent in the first quarter of 1985 compared to the same period in 1984. However, decreases in value varied considerably within the province. In the southern half of the region, land value dropped by 30 to 35 per cent, while in the north there was no significant change. Similarly, in the Swift Current area, the overall drop in land values was estimated to be between 20 to 25 per cent; Saskatoon 15 per cent; North Battleford and Prince Albert 10 per cent; while there was no noticeable change in land value in the Yorkton area. The number of sales have dropped significantly. A further decline in land value is ex-

pected during the remainder of the year.

In Manitoba in 1985, land values dropped by an estimated 8 per cent compared to the same period in 1984. Land sales were few and volume traded was low. Information available, therefore, is inadequate to project an accurate trend. Consensus amongst those in touch at the grassroots level is that during the remainder of the year land values are more likely to drop, though it is difficult to say by how much.

Land values in south-western Ontario in 1985 compared with 1984, in areas where specialized crops are grown, improved somewhat. These improvements, however, were confined to smaller parcels of higher quality land. Number of sales were too few to indicate a definite trend. On an overall basis, nonetheless, land values in 1985 are expected to either remain unchanged or drop by about 5 per cent from their 1985 level.

In Quebec, there was no noticeable change in land value in the first quarter of 1985, compared to the same period the year before. However, the number of land sales dropped by 10 to 15 per cent on average during this period. Relative inactivity in the land market may be an indication of an expected drop in value during the remainder of the year. Any decline in value, if it occurs, is likely to range between 5 to 10 per cent.

In the Atlantic provinces in 1985 high priced land in PEI dropped in value by approximately 30 per cent while the price of lower quality land remained unchanged. The potato crop this year is good which may marginally improve land prices. However, demand for land remains weak. In New Brunswick, there was a slight increase in potato land prices in 1985 compared with 1984, in the Grand Falls area. Land prices in other areas hardly changed over this period. Land values in Nova Scotia dropped slightly while they remained unchanged in Newfoundland with little activity in the market for agricultural land.

Future Expectations

Farm land values, at least, in the short-term, are expected to continue to experience downward pressures. Although realized net income in 1984 exceeded its 1983 level by over 16 per cent, farmers are cautious about increasing their capital purchases. Instability in commodity prices coupled with increasing input costs and the drought in parts of western Canada, will continue

to force some farmers to sell part or all of their land, further aggravating the balance between supply and demand.

Farm income in 1985 is expected to drop by over 15 per cent. Falling farm income, low inflation and relatively high real interest rates are likely to continue to move farm land values closer to farm production values.

In the U.S., declines in land values in 1985 ranged from 2 to 29 per cent and this situation is expected to worsen in many States as a result of a 'snowballing' effect. As prices drop, so do farmer's equity positions, exerting pressure on lending institutions to take action where there is a low or no margin of security, and thereby, increasing the supply of land on the market. Imbalance between supply and demand, in turn, leads to another round of price reductions.

The situation in Canada, although similar to that in the U.S., does not appear to be as severe.

Over the long run, the outlook for land values appears more favourable. Although it is unlikely that farm real estate values will experience the growth of the 1970's, with world population expected to increase at an annual rate of 1.6 per cent while crop area will expand by only 0.2 per cent by the end of the century, this should positively affect demand for agricultural products. This, combined with the recent restructuring that is taking place in agriculture, should be sufficient to increase land values at slightly above the general level of inflation.

Land Leasing

A preliminary survey of land rental rates indicates that as a result of excess availability of land for rent, rental rates across the country were lower compared with the year before. However, there is wide variation in rates between and within regions arising from geographical location, land quality, climatic differences, and type of crops grown. Although, at present, a significant trend away from cash rent was observed, average cash rent ranged between \$25 and \$600 per hectare.

In the prairie provinces where most of the land is leased for cash crop production, crop-sharing is still the most common leasing arrangement. Some farmers, in previous years, abandoned crop sharing in favour of cash rental. Some land owners as well, for example in Alberta, insisted on cash rentals as a precaution against further

softening of the commodity market or as a guard against difficulties in securing due share of the crop. Given an excess supply of land for rent, an increasing number of farmers seemed to refuse this demand of the land owner. As a result, the trend towards cash renting is downward.

Under traditional crop sharing arrangements, the land owners' share was one-third, leaving two-thirds to the farmer. Currently, however, one-quarter and three-quarters sharing arrangements are not uncommon. In certain areas, a share ratio of 15:85 or even lower has been reported.

Although there is no data to indicate the extent of leasing, consensus across the country indicates that more and more land is being leased since farmers are unable to buy additional land they require. Cash rents, however, were either stable or dropping marginally and are expected to remain so, at least in the short-term. However, in the drought-stricken provinces, Saskatchewan and Alberta, if yields are below normal, the cash rent may drop from 5 to 15 per cent over the next year.

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The Economic Report is published quarterly by Corporate Planning Division, Farm Credit Corporation, for employees of the Corporation and other individuals who have an interest in farm credit and related issues. Correspondence should be addressed to: Corporate Planning Division, Farm Credit Corporation, P.O. Box 2314, Postal Station D, Ottawa, Ontario, K1P 6J9.
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